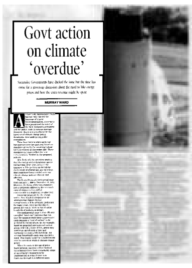
Govt action
on climate
'overdue'

The New Zealand Herald 19/03/2007
TheBusiness Page 12
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Frequency: Weekly AM
Circulation: 201,254
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Govt action on climate 'overdue'

Successive Governments have ducked the issue but the time has come for a grown-up discussion about the need to hike energy prices and how the extra revenue might be spent

MURRAY WARD

Al Gore's *An Inconvenient Truth* has not only entered the language of urgent environmentalism, it seems to have penetrated the mind of the New Zealand Government and the public with its serious message. However, this is not yet reflected in the latest set of climate change policy documents, now undergoing public consultation.

These have been worked up by the bureaucracy over the past year based on mandates given by the incoming Labour-led Government in December 2005. These mandates no longer reflect the new circumstances. Neither do the proposed policies.

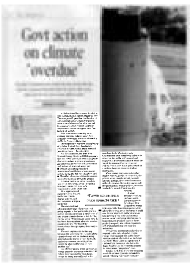
New Zealand's inconvenient truth is that the energy sector documents ignore the fact that, from next January, the taxpayer will be picking up the tab for every tonne of greenhouse gas emissions that could have been avoided were our climate change policies efficient and effective.

The Kyoto Protocol's first period runs from January 1, 2008 to December 31, 2012. However, the focus of the Government's policy proposals addressing the economic costs of emissions has shifted, conveniently you might say, to after 2012.

Given the proposals for the energy sector, New Zealand's response to its international climate change commitments will be seriously inefficient for many years. Over the first Kyoto period, the cost is likely to run to some hundreds of millions of dollars.

The fundamental issue is that efficient (so-called "least cost") policies that can save the taxpayer from these unnecessary costs requires a "cost of carbon" to be included in energy prices. So, for example, based on projected international carbon prices of $15-30 a tonne of CO_2, petrol may need to go up 4-8 cents a litre and electricity 1-2 cents a kilowatt-hour. An average household's costs may rise $4-8 a week. This reality might be considered the core inconvenient truth of climate change policy.

When it comes to the use of price-based policies, successive New Zealand Governments have been remarkably adept at agreeing key measures to be implemented in some distant year. Carrying through is a different story.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Region: National
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A National-led Government decided in 1994 to implement a carbon charge in 1997. This was put off "pending clarification of international policy". History repeated itself a decade later under a Labour-led Government, which decided in 2002 to implement a carbon charge in 2007, then backed off in 2005.

This u-turn was ostensibly to re-evaluate domestic policies given New Zealand's worsening prospects of meeting its Kyoto Protocol obligations.

One might have expected a ramping-up of policies. Instead there has been a reversion to form, with a broad menu of possible policies — for after 2012.

For the meantime, the draft New Zealand Energy Strategy (NZES) proposes that two of the principles that could guide short-term action to reduce greenhouse gas emissions from electricity generation and industrial heat and power are:

- Owners of existing fossil fuel generation should follow a transitional path to facing the full cost of carbon; and
- The effect of any transitional measures on electricity prices should be gradual.

A cost of carbon on other emissions sources in the energy sector, including transport, seems not even to be contemplated in the short term.

This approach will guarantee New Zealand inefficient climate change policies, and that taxpayers will pick up the tab.

'TAXPAYERS HAVE A BIG STAKE IN EFFICIENT AND EFFECTIVE POLICIES.'

The standard and oft-repeated message of international policy experts is that getting the price of carbon into energy prices is at the core of any proper climate change policy for the energy sector. This message is not new. It has been the consistent advice to member countries by the OECD and the International Energy Agency for nearly a decade.

The only explanation for the gap between the Government's concern about climate change and its cautious policy approach is the fear of a voter backlash against an increase in energy prices caused by what will be seen as "yet another tax".

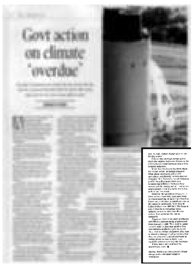
An effective policy needs increases in energy prices to encourage consumers to reduce their demand for fossil-based energy by being more efficient or by switching fuels. What successive Governments have completely failed to do is to treat the public with respect and engage in a grown-up discussion about the use of the revenue that Government collects from a price-based policy (such as a carbon charge or emission trading equivalent).

When energy prices go up for other market reasons, profits are reaped by the private sector, mostly abroad. A small amount, perhaps, flows into Government coffers from taxes. But in the case of well designed climate change policies, revenues can be fully recycled back into the economy.

A smart revenue recycling package would have measures to help lower New Zealanders' energy bills, especially those disproportionately affected by energy price increases. It could also deliver improved public education, help develop a clean energy business service sector, encourage alternatives to high emission activities (such as better public transport), and enhance research and development into low emission technology.

Irrespective of international action to respond to the risks of global climate change, New Zealand will in the future bear the costs of effects that are no longer avoidable. These could be significant. A Carbon Fund (a concept similar to the Super Fund) could be created to prepare for these future "adaptation" costs.

Finally, such lists of revenue recycling possibilities have typically included the idea of reducing other taxes to ensure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The New Zealand Herald 19/03/2007
TheBusiness Page 12
Region: National
Frequency: Weekly AM
Circulation: 201,254
Height: 15.33 cms
Width: 6.14 cms
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that, overall, climate change policies are fiscally neutral.

Policies that increase energy prices must also address legitimate threats to the international competitiveness of key New Zealand industries.

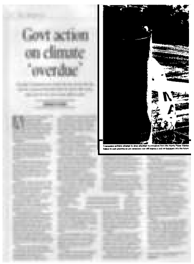
So far this discussion has been about the energy sector, including transport. What about short-term policies for agriculture and forestry, sectors that are critical to New Zealand's overall emissions profile? As a first point, there is a fundamental difference between these sectors and the energy sector — we're not asking people to eat less lamb, drink less milk or use less wood.

However, the growth in emissions in these sectors, especially associated with increased dairying on land converted from forest use, could place a significant cost on the taxpayer, potentially more than $1 billion dollars over 2008-2012. The focus of policy must be to encourage these industry sectors to take cost-effective actions that minimise the cost to taxpayers.

Taxpayers have a big stake in efficient and effective policies being implemented from January 1, 2008. They need to speak out and make it clear that another five-year deferral of effective policies is not okay. And as energy consumers, they need to deliver a message to all politicians that they are prepared to accept increases in energy prices as long as there is an equitable scheme to recycle the revenues.

If they don't, they will bear the unnecessary costs. ■

Murray Ward is an international climate change policy consultant based in Wellington.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TheBusiness Page 12
Region: National
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Width: 12.47 cms
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Bin:2528

Greenpeace activists attempt to draw attention to emissions from the Huntly Power Station. Failure to curb greenhouse gas emissions now will impose a cost on taxpayers into the future.